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C O N F I D E N T I A L SECTION 01 OF 03 TAIPEI 001640

SIPDIS

STATE FOR EAP/RSP/TC, NP/NE FOR ALEX BURKART, PLEASE PASS
TO AIT/W

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TAGS: [ECON](#) [ENRG](#) [KNNP](#) [SENV](#) [PREL](#) [TW](#)

SUBJECT: TAIWAN'S FOURTH NUCLEAR POWER PLANT - HURDLES
REMAIN

REF: A. 05 REFTEL TAIPEI 01072

[B](#). 05 TAIPEI 00846
[C](#). 04 TAIPEI 01217
[D](#). 03 TAIPEI 01980
[E](#). 02 TAIPEI 03912
[F](#). 05 TAIPEI 00061

Classified By: AIT ACTING DIRECTOR DAVID J. KEEGAN,
REASON: 1.4 (b/D)

[1](#). (C) Summary. While the chances of completing the Fourth Nuclear Power Plant (FNPP) have improved under the second Chen Administration (refs a and b), serious challenges remain. Contractors for the project describe its management as beset by mass confusion and poor planning. While the Chen Administration has indicated its renewed support for completion of the FNPP, that policy shift has not translated into a wholesale re-examination of the Administration's anti-nuclear policies and programs. The Atomic Energy Commission, Taiwan's nuclear regulatory agency, is still slated to lose its research arm, a move that could hinder its capacity to assess complex safety concerns. Thus, while prospects for completing the plant have improved, the Chen Administration's ability to ensure smooth and safe operation of the FNPP remains in question. End Summary.

[2](#). (C) AIT Commercial and Econ sections met with several representatives from Stone and Webster Asia, Inc. (SWAI) on March 22. SWAI is one of the major architectural and engineering firms contracted to work on the Fourth Nuclear Power Plant (FNPP). SWAI raised many concerns about the management of the project.

No Single Manager

[3](#). (C) SWAI is particularly concerned that the state-owned Taiwan Power Company (TPC), which is responsible for the overall project, does not have a single project manager. There are currently more than a half dozen TPC internal organizations involved directly or indirectly in the management of the Lungmen Project. Those TPC organizations do not routinely coordinate among themselves. Compounding this problem is a major lack of coordination among the large number of subcontractors who also do not report to a common project manager. As a result, there is a major lack of efficiency. According to SWAI, TPC often pressures SWAI to perform engineering work before other contractors provide it with all of the necessary interface data to complete the project. When this happens, SWAI must rework the same project after the required data becomes available.

No Integrated Work Schedule

[4](#). (C) Both SWAI and General Electric (another major contractor) also report that there is no single integrated time schedule for the project. They both claim that each major subcontractor has put together its own time line in isolation from the others. This also creates difficulties in timing work schedules for interdependent projects that are carried out by disparate contractors.

Fixed Base Price

[5](#). (C) Many of the contractors for the FNPP are operating under fixed-price contracts that were originally signed in the late 1980s. Over the course of time, the costs of many of the inputs for the project (i.e., rebar and concrete) have sharply increased threatening the solvency of some of the contractors (ref c). This problem was exacerbated by the 3-month shut-down of plant construction in late 2000- early [2](#)001. The work stoppage and restart is estimated to have increased costs of the project by USD 30 million (ref d). GE is one of the few contractors that included a suspension clause in its original contract. As a result, GE has been able to obtain most of its compensation claims from the 2000-2001 shut-down. Most other contractors, however, did

not have suspension clauses in their contracts and are continuing to fight to recover the costs incurred. This has exacerbated the financial problems of several of the project's contractors, including its two major architecture and engineering firms, SWAI and New Asia.

Major Delays

16. (C) There is widespread agreement that the project is way off schedule and will not be close to ready for operation by TPC's official anticipated completion date of July 2006. SWAI predicts that the actual date will be closer to 2009-2010. GE provides an optimistic estimate of late 2007 and a more realistic estimate of second quarter 2008. These delays will further increase costs, amplifying the financial strain on contractors with fixed-price contracts.

Corruption

17. (C) During their March 22 meeting with AIT, SWAI also alleged unscrupulous TPC business practices that might involve corruption. SWAI indicated there have been several instances where top TPC management, including TPC Chairman Lin Ching-chi, have tried to pressure SWAI to influence the selection of bids. One of SWAI's responsibilities is to provide the specifications for contracts before they are put out for bids and to assess the technical competencies of bidders. SWAI described at least two instances where Chairman Lin and others in TPC, prompted by pressure from LY members (including Lin Feng-hsi), have pressed SWAI to variously include or exclude bidders from the process. SWAI claims it has refused to acquiesce to such practices.

Incompetence

18. (C) SWAI points out that, prior to the FNPP, TPC had no experience in managing the construction of a nuclear plant. Taiwan Nuclear Plants 1, 2 and 3 were all contracted out to a single bidder which was responsible for all aspects of construction. TPC has split the design of FNPP among multiple contractors with no single project manager or system of oversight. In addition, according to SWAI, when evaluating cost estimates, TPC often fails to follow contract requirements, which specify that the contract is a cost-reimbursable arrangement. Despite this, SWAI claims that TPC expects SWAI to absorb or assume costs that are outside of its scope of work. SWAI is also currently in a dispute with TPC over TPC ceiling prices that SWAI believes are lower than what is required to perform the work.

Comment on Safety

19. (C) SWAI did not raise the issue of safety in discussions with AIT. However, without proper oversight and supervision, safety issues could be a concern. Such concerns would be minimized as long as Taiwan maintains its strong and independent nuclear regulatory agency, the Atomic Energy Commission (AEC). Unfortunately, AEC has not enjoyed the same resurgence of support as the FNPP in recent months (refs a and b). In a meeting with AEC Minister Ouyang Min-shen on March 30, Ouyang noted that plans to separate the Institute for Nuclear Energy Research (INER), the research arm of AEC, from the AEC and to "privatize" INER remain intact (ref e). So do plans to move AEC from being an independent agency to becoming a subsidiary under a new Ministry of Natural Resources (ref f). According to Dr. Wu Ruey-Yau (formerly AEC's Director of Planning and now Deputy Director of the Environmental and Energy Technology Center at INER (PROTECT)), these moves could undermine AEC's ability to regulate the safety of Taiwan's nuclear plants. Wu points out that INER has traditionally played a support role in researching safety questions for AEC. Wu believes that AEC, on its own, does not have the necessary staff and technical capabilities to do the in-house studies required to hold TPC to the highest standards of safety.

Conclusion

10. (C) While both GE and SWAI have confirmed a shift in the Chen's Administration towards supporting the completion of the FNPP, that shift has not translated into a wholesale re-examination of the Administration's anti-nuclear policies and programs. SWAI's comments suggest TPC is not properly managing the construction of FNPP. The AEC's long-term ability to regulate the safety of nuclear power plants is also uncertain. These weaknesses stem from the Chen Administration's nuclear free homeland policies, which sought to minimize the role of nuclear power, included plans to decommission the first 3 nuclear plants on an accelerated schedule, and left in doubt Taiwan's commitment to complete the FNPP (ref e). Thus, as prospects for completing the

plant have improved, the Chen Administration's ability to ensure its smooth and safe operation have been called into question.

KEEGAN